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Sugar

Annual Report

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Report Highlights:

Based on the most recent government data, Post revises MY00 production upward to 1.7 mmt. Production is estimated at around 1.6 mmt in MY01 due to reportedly lower cane yields and sugar extraction rates (rendemen). Post forecasts production will rebound to 1.7 mmt in MY02 as sugar rendemen is expected to improve assuming average rainfall.

Consumption is estimated at 3.3 mmt in MY01 and forecasted to increase to 3.4 mmt in MY02 in line with increasing population and demand from the domestic food industry. MY01 and MY02 imports are estimated at 1.6 mmt -- down from the remarkable 1.9 mmt imported in MY00 -- based in part on higher international prices and better domestic production. Stocks will further decline to 1.1 mmt in MY02 due to moderate imports and slightly higher consumption. Continuing calls for a much higher import tariff are the cornerstone of proposed policy changes. So far, the government has resisted these calls.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I: SITUATION AND OUTLOOK

General Summary

Inadequate farm management and competition from imported sugar have hampered further development of the sugar industry which is currently struggling to increase production and quality in order to compete in a newly liberalized marketplace. Cane production in MY01 (May 00-April 01) is estimated around 23.5 mmt, down 2 percent from 24.0 mmt in MY00. Similar conditions in the year ahead lead to a forecast for MY02 cane production of around 23.5 mmt. Cane area declined from 390,000 hectares (ha) in MY00 to 380,000 ha. in MY01. Considering labor/input costs remain high as does competition, the cane area forecast for MY02 remains at 380,000 ha.

With respect to farm management, outdated techniques, high input prices and little access to credit has led to inadequate or improper use of pesticides and fertilizer resulting in low cane yields and low sugar content (rendemen). Cane yield is estimated around 69.1 mt/ha in MY01 lower than the level in previous year (69.8 mt/ha), but around 7 percent higher than the previous estimate in ID0048 (62.9 mt/ha). Assuming that there will be no significant changes in government subsidization or support of the sugar industry, Post forecasts MY02 cane yield to remain around 69.1 mt/ha. Post lowers the estimate of cane recovery rate from 7.0 percent in MY00 to 6.8 percent in MY01 due to untimely and lower than the recommended doses of input applications. Assuming favorable weather during the next growing period, the forecast for cane rendemen could rebound to 7.2 percent in MY02.

Increasing international sugar prices toward the end of 2000 and early 2001 and the weakened rupiah in 2001 has limited consumer buying power and leads FAS/Jakarta to lower the MY01 sugar consumption estimate from 3.5 mmt in the previous report to 3.3 mmt. To reflect increasing demand from the food and beverage industries and growth in population, MY02 sugar consumption is forecast at 3.4 mmt, around 3 percent higher than the estimated level in MY01. The level of ending stocks for MY00 is revised to 1.3 mmt to carry higher than previously estimated supply. As prices are increasing and consumer buying power is declining, the ending stocks estimate in MY01 is revised upward to 1.2 mmt, 45 percent higher than previously estimated (ID0048). Increasing consumption in line with population growth led to a lower ending stock forecast of 1.1 mmt in MY02.

The sugar market was liberalized under Indonesia's International Monetary Fund agreement, since then lower-priced sugar imports have flowed into the market. In MY01, sugar imports were subject to a 20 to 25 percent tariff depending on the type of sugar which curbed imports to 1.6 mmt. Despite increasing demand in MY02, Post forecasts sugar imports will be stable at 1.6 mmt in MY02 due to higher domestic production. The most recently available government trade data shows that MY01 (May-Nov) imports had reached 742,000 mt, consisting of 211,000 mt of refined sugar and 529,000 mt of raw sugar. Major suppliers during that period were Thailand (59%), United Arab Emirates (10%), China (5%), Brazil (5%), and United Kingdom (5%).

The cornerstone of Indonesian sugar policy is to help support the domestic industry by cutting off competition through a high import tariff (as high as 80 percent). While the government has resisted the persistent calls by producers and their representatives, there seems to be growing support for this idea. In order for it to be enacted, though, the Government of Indonesia (GOI) would have to receive tacit approval from the IMF. This will likely provide enough of a deterrent to make success unlikely.

Sugar Cane for Centrifugal

PSD Table						
Country:	Indonesia					
Commodity:	Sugar Cane Centrifugal					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		05/1999		05/2000		05/2001
Area Planted	390	390	380	380	0	380
Area Harvested	341	344	340	340	0	340
Production	21400	24000	21400	23500	0	23500
TOTAL SUPPLY	21400	24000	21400	23500	0	23500
Utilization for Sugar	21400	24000	21400	23500	0	23500
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	21400	24000	21400	23500	0	23500

Note: Unit in 1,000 Ha. and 1,000 MT.

Data in the "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID0048.

Centrifugal Sugar

PSD Table						
Country:	Indonesia				Unit:	1,000 MT
Commodity:	Centrifugal Sugar					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		05/1999		05/2000		05/2001
Beginning Stocks	908	908	1240	1330	840	1225
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1600	1690	1500	1600	0	1700
TOTAL Sugar Production	1600	1690	1500	1600	0	1700
Raw Imports	1407	1407	1200	1075	0	1100
Refined Imp.(Raw Val)	542	542	400	525	0	500
TOTAL Imports	1949	1949	1600	1600	0	1600
TOTAL SUPPLY	4457	4547	4340	4530	840	4525
Raw Exports	17	17	0	5	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	17	17	0	5	0	0
Human Dom. Consumption	3200	3200	3500	3300	0	3400
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	3200	3200	3500	3300	0	3400
Ending Stocks	1240	1330	840	1225	0	1125
TOTAL DISTRIBUTION	4457	4547	4340	4530	0	4525

Note: Data in the "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID0048.

Production

Based on the most recent government and industry estimations, Post revised raw sugar cane production in MY00 up by 2 percent to 24.0 mmt. Better than expected output in MY01 leads to an even higher increase in the cane production estimate to 23.5 mmt (10 percent higher than previous estimate presented in ID0048). Economic hardship and socio-political instability restrict efforts by farmers and the sugar industry to improve productivity and leads to a production forecast which is stable at 23.5 mmt in MY02.

Centrifugal sugar production in MY01 is estimated at 1.6 mmt, around 5 percent lower than the 1.7 mmt produced in MY00 due to lower sugar extraction rates (rendemen). Post believes production will rebound to 1.7 mmt in MY02 as weather will improve sugar extraction rates. Almost 80 percent of cane area is managed by smallholder farmers with very small acreage and limited means for increasing production. Farmers depend on government support in terms of credit for purchase of inputs and protective tariffs. Since liberalization of the

sector, neither of these has been particularly plentiful. (A moderate tariff of 20 to 25 percent was imposed in MY00.) Planting cane no longer generates an attractive income for farmers. Further, outdated milling equipment and post-harvest delays in transportation make milling delays de rigeur and inefficient sugar production (rendemen) endemic.

Even though planting cane is less attractive than other commodities, soil conditions limit farmers ability to shift to other crops. Expansion by private companies is improbable due to the high cost and lengthy bureaucracy procedures associated with it. As a result, planted and harvested area are expected to remain more or less stable at around 380,000 ha and 340,000 ha for MY01 and MY02, respectively.

The high cost of inputs, lack of access to credit and more recently tough competition from imported sugar has meant plantations are less well-managed resulting in low cane yields. In MY01, cane yield is estimated to decline from 69.8 mt/ha in MY00 to 69.1 mt/ha. The traditional planting system known as “ratoon” or regrowth also has a detrimental impact on cane yields because continuous ratooning lowers the growing capacity. Given no improvements in the current management situation over the next year, FAS/Jakarta forecasts cane yield to stand at 69.1 mt/ha MY02.

Sugar recovery rates (sugar rendemen) are determined mainly by the quality of the cane and timely processing. In addition to late and less than the recommended doses of input applications, bad transportation management caused the estimated sugar rendemen to be lowered from 7.0 percent in MY00 to 6.8 percent in MY01. Assuming favorable weather conditions during the next season, Post forecasts that MY02 sugar rendemen could increase to around 7.2 percent. Low cane quality in MY01 pulled down sugar yields from 4.9 mt/ha in MY00 to 4.7 mt/ha. If a concerted effort to improve the state and performance of domestic sugar mills comes to fruition (such as the phase-out of mills operating under capacity with low efficiency) sugar yields could increase to as high as 5.0 mt/ha in MY02.

Consumption

Total consumption in MY01 is up to 3.3 mmt (down from the previous estimate of 3.5 mmt in ID0048) supported by some modest economic gains post-crisis. Post forecasts MY02 total consumption to increase by around 3 percent from MY01 to 3.4 mmt reflecting an increase in population and expanding food industry.

According to the Indonesian Food and Beverage Producers Association (GAPMMI - Gabungan Pengusaha Makanan dan Minuman Indonesia) most of food/beverage industries in Indonesia use cane sugar in their products. The estimated annual requirement is around 750,000 mt mostly imported sugar because local sugar quality is not suitable for the products. The use of artificial sweeteners is more common in products intended for lower income segments while production and utilization of High Fructose Syrup (HFC) is minimal.

Prices

Domestic prices tend to be well above prevailing world market prices. However, the combination of an import tariff of 20 percent for raw sugar and 25 percent for refined sugar (effective January 1, 2000), higher international prices and a weak local currency brought domestic sugar prices closer to import parity. The

average retail price of imported sugar in the Jakarta market is currently at Rp. 3,757/kg (US\$ 348.5/mt at the current exchange rate of Rp. 10,780/US\$ 1), one percent below the price of local sugar. Monthly retail prices for both local and imported sugar increased during the first quarter of 2001. The average retail price of local sugar in the Jakarta market increased from Rp. 3,700/kg in January (US\$ 343.2/mt at the current exchange rate) to Rp. 3,880/kg or US\$ 359.9/mt in March. The average retail price of imported sugar in the Jakarta market increased from Rp. 3,688/kg (US\$ 343.2/mt at the current exchange rate) to Rp. 3,840/kg or US\$ 359.9/mt in March.

Stocks

Post revised MY00 ending stocks from 1.2 mmt to 1.3 mmt to reflect higher than expected domestic production. Lower production and imports coupled with increasing consumption led ending stocks to drop in MY01 to 1.2 mmt. Population growth and expansion in the food and beverage industries will increase demand for sugar and cause the ending stocks to decline to 1.1 mmt in MY02.

Policy

The sugar industry is feeling the pains of adapting to a liberalized market where sugar imports are relatively free to enter. As a result, the local industry has repeatedly called for a dramatic increase in the sugar import tariff to 80 percent (the WTO bound rate is 110 percent). The perception that this one policy will provide relief to farmers is a rather simplistic one. It does not consider the impact that inefficient farming practices and poorly maintained factories play in domestic production. In addition, a high import tariff would seriously impact the local consumer who is still suffering from poor economic conditions and even less purchasing power due to the weakened rupiah. In order to enact a tariff increase, though, the GOI would have to receive approval from the IMF. This is unlikely to occur without a long negotiation and up until now, the GOI has resisted pressure to change the import tariff.

With respect to domestic support, for the current planting season the GOI no longer guarantees farmers' income by setting floor prices. Now, sales of sugar should follow market prices. Instead, the GOI plans to support farmers by providing credit for food security (KKP-Kredit Ketahanan Pangan) which is available for cane farmers as well as basic food crops such as rice, corn, and soybeans. A total of Rp. 2.3 trillion (equivalent US\$ 213.3 million at current exchange rates) has been allocated for the credit scheme. Unfortunately, this facility requires some collateral which small-scale farmers cannot provide and most of the credit allocation is currently unused.

Citing the many difficulties that are reportedly faced by sugar farmers, Indonesia proposed to ASEAN that sugar be included in the Highly Sensitive List under the ASEAN Free Trade Agreement (AFTA) in 2002. Should this proposal be accepted, the zero levy for sugar will be postponed until 2010.

Trade**Export Trade Matrix**

Export Trade Matrix				
Country:	Indonesia		Units:	1,000 MT
Commodity:	Sugar			
Time period:	Jan-Nov			Jan-Nov
Exports for	1999			2000
U.S.	0		U.S.	0
Others			Others	
Japan	10		Japan	4
Rep. of Korea	7			
Total for Others	17		Total for Others	4
Others not listed	0		Others not listed	1
Grand Total	17		Grand Total	5

Source: Central of Statistics Agency, Jakarta, Indonesia.

Import Trade Matrix

Import Trade Matrix			
Country:	Indonesia	Units: 1,000 MT	
Commodity:	Sugar		
Time period:	Jan-Nov	Time period:	Jan-Nov
Imports for	1999	Imports for	2000
U.S.	2	U.S.	13
Others		Others	
Thailand	732	Thailand	841
Brazil	536	Brazil	108
Pakistan	244	United Arab Emirates	105
United Arab Emirates	135	United Kingdom	58
China	126	China	50
United Kingdom	76	Australia	40
Australia	45	Korea	36
Malaysia	34	Malaysia	30
Korea	29	Singapore	28
Singapore	26	Hong Kong	10
Total for Others	1983	Total for Others	1306
Others not listed	90	Others not listed	61
Grand Total	2075	Grand Total	1380

Source: Central of Statistics Agency, Jakarta, Indonesia.

Following market liberalization, imports freely entered Indonesia to the tune of 1.9 mmt. In MY00, a tariff was imposed which subsequently restricted imports during the next marketing year, MY01, to 1.6 mmt. The import forecast for MY02 reflects stable volumes of 1.6 mmt due to slightly higher production which will cover increased demand. The most current official trade data shows that imports during January-November 2000 reached 1.4 mmt including 957,000 mt raw sugar and 420,000 mt refined sugar. Major suppliers were Thailand (61%), Brazil (8%) and the United Arab Emirates (8%). Indonesia is not a major artificial sweetener or high fructose corn syrup importer.

Sugar exports are minor. According to government trade data, exports during January-November 2000 were recorded at 5,000 mt, mostly raw sugar exported to Japan.

SECTION II: STATISTICAL INFORMATION AND TABLES

Cane Sugar Production by Month

Monthly Cane Sugar Production Year 1998, Revised 1999 and (Jan-Jul) 2000 (in 1000 Metric Ton)					
Month	Production	Month	Production	Month	Production
1998		1999 1/		2000	
Jan	5.0	Jan	1.2	Jan	0.1
Feb	11.2	Feb	10.1	Feb	7.4
Mar	15.1	Mar	18.4	Mar	18.1
Apr	13.5	Apr	58.3	Apr	58.3
May	17.3	May	186.9	May	172.2
Jun	505.6	Jun	346.0	Jun	326.5
Jul	378.7	Jul	345.7	Jul	332.9
Aug	511.7	Aug	542.6	Aug	
Sep	187.4	Sep	256.9	Sep	
Oct	186.4	Oct	121.2	Oct	
Nov	87.6	Nov	18.2	Nov	
Dec	12.3	Dec	2.0	Dec	
Total	1,931.8	Total	1,907.5	Total	915.5
Source: Economic Indicator, Central Bureau of Statistic, Indonesia, (April and November 2000).					
Note: 1/ Revised Data.					

Retail Sugar Prices

Average Monthly Local Sugar Retail Prices 1/ (Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1999	3505	3445	3175	2963	2670	2514	2333	2350	2508	2485	2521	2819
2000	2755	2627	2248	2617	2573	2901	3355	3433	3458	3470	2850	3674
2001	3700	3785	3880									
% Change	34	44	73									

Source: Center for Market Information (PIP), Ministry of Industry and Trade.

1/ Prices apply to Local Sugar SHS I in traditional Jakarta market. Pct refers to year-to-year percent change.

Average Monthly Imported Sugar Retail Prices 1/
(Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1999	3519	3477	3140	2815	2551	2433	2243	2285	2448	2443	2483	2768
2000	2708	2598	2440	2535	2503	2841	3243	3203	3393	3411	3650	3677
2001	3688	3743	3840									
% Change	36	44	57									

Source: Center for Market Information (PIP), Ministry of Industry and Trade.

1/ Prices apply to Imported Sugar in traditional Jakarta market. Pct refers to year-to-year percent change.

Exchange Rate

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7598	7988	8728	8742	9055	8290	8780	9395	9530	9595
2001	9450	9835	10400	10780								

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.
 Note: - April 2001 exchange rate is quoted for April 10, 2001.
 - BPS data available up to July 2000.

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